SENATE RECORD VOTE ANALYSIS

104th Congress | May 22, 1996, 3:33 p.m.

2nd Session | **Vote No. 140** | Page S-5481 Temp. Record

BUDGET RESOLUTION/Tax Deduction for Individuals' Payroll Taxes

SUBJECT: **Senate Concurrent Budget Resolution for fiscal years 1997-2002 . . . S. Con. Res. 57. Ashcroft modified amendment No. 4008.**

ACTION: AMENDMENT REJECTED, 43-57

SYNOPSIS: As reported, S. Con. Res. 57, the Concurrent Budget Resolution for fiscal years 1997-2002, will balance the Federal budget in fiscal year (FY) 2002 by slowing the overall rate of growth in spending over the next 6 years to below the rate of growth in revenue collections. The rate of growth in entitlements such as Medicare, Medicaid, the Aid to Families with Dependent Children program, and the Earned Income Credit will be slowed. No changes will be made to the Social Security program, the spending for which will grow from $348 billion in FY 1996 to $467 billion in FY 2002. Defense spending will be essentially frozen at its present level.

The Ashcroft amendment would adjust the totals in the resolution to reflect the intended elimination of the income tax that is currently imposed on the personal income that is used to pay payroll taxes. The total tax relief that would be provided would be $276 billion over 6 years, which is less than the total amount of new taxes imposed over 6 years by President Clinton and the Democrats in their 1993 record tax hike. The cost of the amendment would be paid for by making commensurate reductions in discretionary spending.

Those favoring the amendment contended:

Most of the amendments that the Senate considers tinker timidly around the edges of the status quo. On a few occasions, it is asked to consider measures that would make broad, fundamental changes in policy that can affect the course of the United States for decades to come. The Ashcroft amendment is one such measure. This amendment would correct an enormous, fundamental flaw in the tax code. It would eliminate a tax on a tax--Americans would no longer have to pay income taxes on the money that they must pay the Government in payroll taxes. Almost 100 percent of the benefit from this correction would go to middle-class, working

(See other side)

YEAS (43)			NAYS (57)			NOT VOTING (0)	
Republicans (40 or 75%)		Democrats (3 or 6%)	Republicans (13 or 25%)	Democrats (44 or 94%)		Republicans (0)	Democrats (0)
Abraham	Inhofe	Baucus	Bennett	Akaka	Kennedy		
Ashcroft	Jeffords	Biden	Bond	Bingaman	Kerrey		
Brown	Kempthorne	Heflin	Chafee	Boxer	Kerry		
Burns	Kyl		Cohen	Bradley	Kohl		
Campbell	Lott		Domenici	Breaux	Lautenberg		
Coats	Lugar		Gorton	Bryan	Leahy		
Cochran	Mack		Gregg	Bumpers	Levin		
Coverdell	McCain		Hatfield	Byrd	Lieberman		
Craig	McConnell		Kassebaum	Conrad	Mikulski		
D'Amato	Murkowski		Simpson	Daschle	Moseley-Braun		
DeWine	Nickles		Snowe	Dodd	Moynihan		
Dole	Pressler		Specter	Dorgan	Murray		
Faircloth	Roth		Stevens	Exon	Nunn		
Frist	Santorum			Feingold	Pell		
Gramm	Shelby			Feinstein	Pryor		
Grams	Smith			Ford	Reid		
Grassley	Thomas			Glenn	Robb		
Hatch	Thompson			Graham	Rockefeller		
Helms	Thurmond			Harkin	Sarbanes		
Hutchison	Warner			Hollings	Simon		
				Inouye	Wellstone		
				Johnston	Wyden		

EXPLANATION OF ABSENCE:
1—Official Buisiness
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

Americans (an average American family with two working adults would benefit by $1,770 per year). Benefits would not go to welfare recipients who do not work and thus do not pay Social Security taxes, and only a minuscule percentage would go to rich people because they only pay Social Security taxes on the first $62,000 of their income. This tax cut would go straight to the pockets of middle-class, working Americans.

The fairness of this tax cut cannot (and has not) been disputed. A basic rule of Federal tax policy has always been that the same income should not be taxed more than once. The Government does not impose a 20 percent tax on someone's income in 1 month, another 20 percent on the same income the next month, another 20 percent the next month, and so on, and then claim that it has a 20-percent tax rate. It taxes income once. There is one huge exception to this rule, though, and that is for individual payroll taxes. Individuals pay 7.5 percent of their income in payroll taxes. They also pay income tax on that 7.5 percent. In other words, they must pay taxes on their taxes. Then, when they retire, they have to pay taxes on the same money yet again because their Social Security benefits are taxed. Businesses, though, are not similarly burdened. For businesses, the Government correctly recognizes that when a business has to pay half of an employee's payroll taxes, the money given to the Government is a expense that the business bears. It does not insist that the money is still the business' money.

Though our colleagues have not disputed the fairness of this tax break, they have questioned its wisdom. Many of our Democratic colleagues, who so dearly love to raise taxes, have argued that many of them have been in the Senate for decades, and they therefore well remember the Reagan tax cuts and the deficits which (they erroneously say) resulted. They remember the cuts correctly, and they remember the deficits, but they do not seem to have learned anything, perhaps because they somehow cannot just seem to recall how much Democratic Congresses in the 1980s insisted on increasing spending. For the edification of our colleagues, we inform them that the Reagan tax cuts accelerated the growth in tax collections. Lower tax rates resulted in record growth in productivity. The economy grew at tremendous rates. The growth was across the board--real wage rates at every income level climbed. The number of people in the lower income brackets declined as more and more people moved up, and people at the bottom of the income scale earned more in real terms than they ever did before. In total, more than 20 million new, high-wage jobs were created. All of this increased economic activity resulted in greater tax collections that more than offset any amounts that were lost due to taxing people at lower rates. All things being equal, the Reagan years should have generated tremendous surpluses in revenue.

All things were not equal, however. The Democrats controlled Congress and the deficits grew. Here most of our Democratic colleagues' memories grow hazy. They do not remember the real spending cuts proposed by President Reagan, nor do they remember how they insisted on increasing spending, year in and year out, by more than each year's new record amount of tax collections. The President may not spend one penny without the approval of Congress, and, since the Budget Act passed in the early 1970s, he must spend the money that Congress approves, like it or not. President Reagan enacted tax policies that led to the greatest economic growth in America's history; Congress then spent that money and then some, creating the greatest deficits in America's history.

The largest spending increases were in entitlements. Democrats who may wish to absolve themselves for the growth in this area need again to review history. In the early 1980s, Social Security was on the brink of insolvency. President Reagan proposed reforms, and then-Speaker Tip O'Neil made histrionic charges that President Reagan was out to steal little old ladies' Social Security checks. Thus started the shameless demagoging that has characterized all subsequent attempts to reform entitlement programs. After Speaker O'Neil made his cheap political points, a bipartisan commission was formed to develop a solution. That commission resulted in a large increase in Social Security taxes. After that little episode, Members of both parties have been wary of proposing any changes to entitlement programs, which affect vast numbers of voting Americans who can easily be misled into believing that reform proposals have vile intentions. Throughout the 1980s and into the 1990s, it became increasingly apparent that Medicaid and Medicare in particular were growing at uncontrollable rates. Reform proposals were few and far between, though, because no one dared do anything about it for fear of partisan attacks. No one made proposals even though it became increasingly apparent that without major reforms those programs were literally going to bankrupt the United States. The problem was, and is, actuarial--the major entitlement programs pay benefits to the elderly, people live longer and the baby-boomer generation will soon be retiring, and the baby-boomer generation has not had as many children of its own; in other words, we will soon not have enough taxpayers paying into entitlement programs to pay for the elderly people who receive benefits from them.

Adjusted for inflation, Federal tax collections grew at 3.8 percent per year during the 1980s. So far in the high-tax 1990s (2 huge tax increases have been enacted; the first as a compromise between President Bush and a Democratic Congress; the second, which was the largest tax increase in history, as a solo performance by President Clinton and a Democratic Congress) tax collections have grown less than 2.5 percent annually. Instead of everyone doing better, wages have been stagnant. Last quarter saw a 1-percent rise in wages, which was the first ever rise in wages under President Clinton. We have had 3 straight years of malaise under his presidency. Most Americans favor cutting the size of the Federal Government, and most favor requiring a balanced budget, but few have any idea how bad things really are. They do not know that in a few years just a few entitlement programs plus interest on the debt will consume nearly every penny in revenues collected by the Federal Government. They do not know that in a few decades, Social Security will be running several hundred billion dollar yearly deficits, and that it will be broke by 2029. They do not know that the current rate of growth in entitlements will require impossible lifetime taxation rates for children born today in excess of 80 percent to balance the budget. Senators do know, however. Relatively small changes now can avert the looming catastrophes.

Two basic options are available. Reforms to the entitlement programs themselves, to make them more efficient and effective, and to make them actuarial possible to sustain such as by raising eligibility ages, are one option. Such reforms tend to look at the economy as a certain size, and decide how to divide it up. The other option is to make the economy larger--by pursuing a policy of rapid growth, more funds will be available to pay for the growth in entitlement spending.

Both options should be chosen--reforms clearly need to be made, but pursuing a policy of growth also will raise living standards and will make the reforms that are made less painful. Eliminating the unjust income tax on the Social Security tax would mean that 77 million working Americans would be able to keep more of the money they earn. Though the estimates vary, the average estimate that economists make is that cutting Federal spending and taxes by the amount proposed in the Ashcroft amendment would lead to the creation of 500,000 new jobs and an increase in the gross domestic product of .5 percent.

The Ashcroft amendment would help working families by eliminating an unjust tax. Eliminating that tax would stimulate economic growth. Greater economic growth would increase revenues, helping to balance the budget and making it easier to reform entitlement programs. Clearly this amendment should be supported.

Those opposing the amendment contended:

Argument 1:

We are for cutting the deficit above everything else. Once the budget is balanced we will be happy to discuss tax cuts, but not before it is balanced.

Argument 2:

We oppose cutting taxes now, and we do not know that we will favor cutting them in the future. Our colleagues are wrong both in their calls for tax cuts and in their criticisms of the President. President Clinton is doing an admirable job of cutting the deficit. His tax increase in 1993, which no Republican had the courage to support, greatly reduced the deficit, even after the effect of no longer having to pay for the savings and loan bailout is factored out of the equation. We were here in the 1980s when taxes were cut and revenues were supposedly going to increase from the resulting growth, and we saw instead that when we cut taxes we ended up with huge deficits. We are not willing to make that same mistake again. Further, we are not willing to cut spending by the amount that is proposed in this amendment. The size of the Federal Government has been shrinking. We do not favor further cuts. The Federal Government should be involved in education, agriculture, transportation, environmental protection, commerce, science, energy, consumer protection, and numerous other areas. We view Federal programs positively, and do not favor their elimination. Finally, our colleagues have spoken of the supposedly horrible effects that came from that 1993 tax hike. Perhaps the economy would have done better; there is obviously no way of proving it one way or the other. However, we certainly do not think that the American people have any reason to complain. Even with that 1993 tax hike, which mainly was on the rich, more than 8 million new jobs have been created, the stock market is at record highs, and consumer confidence is up. President Clinton has cut the deficit in half--we are only spending about $150 billion more each year than we collect in taxes. We are proud of that fact, we oppose short-sighted cuts in taxes, and we thus oppose the Ashcroft amendment.